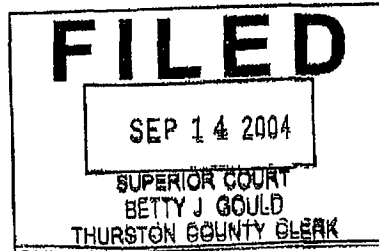


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SEP 17 2004  
INSURANCE COMMISSIONER  
COMPANY SUPERVISION

STATE OF WASHINGTON  
THURSTON COUNTY SUPERIOR COURT

MIKE KREIDLER,  
INSURANCE COMMISSIONER,

Petitioner,

v.

WESTERN UNITED LIFE  
ASSURANCE COMPANY,

Respondent.

NO. 04-02-00406-1

FIRST REPORT OF RECEIVER

COMES NOW, Mike Kreidler, the Insurance Commissioner of the State of Washington and Statutory Receiver of WESTERN UNITED LIFE ASSURANCE COMPANY ("WULA"), James T. Odiorne, Deputy Insurance Commissioner and court-appointed Receiver of WULA, and Wayne C. Metcalf, III, Special Deputy Insurance Commissioner and court-appointed Chief Deputy Receiver of WULA, by and through their attorneys, Christine O. Gregoire, Attorney General, and Christina Gerstung Beusch, Assistant Attorney General, and hereby submit the First Report of Receiver, pursuant to RCW 48.31.040(5), and state as follows:

1. *Order of Rehabilitation.* On March 2, 2004, this Court entered an Order of Rehabilitation and Appointment of Receiver placing WULA into rehabilitation proceedings pursuant to Chapters 48.31 and 48.99 RCW, and appointing the Statutory Receiver, Receiver and Chief Deputy Receiver (hereinafter collectively "Receiver"). Pursuant to RCW

1 48.31.045, a ninety (90)-day stay was imposed on all cases in which WULA is a party or  
2 obligated to defend.

3 2. *Accounting to the Court.* RCW 48.31.040(5) and the Order of Rehabilitation  
4 require that the Receiver make accountings to the Court not less than semiannually.

5 3. *Financial Report.* Attached hereto as **Exhibit A** is the June 30, 2004 Quarterly  
6 Statement of WULA. As of June 30, 2004, WULA had capital and surplus, as calculated  
7 under the Statutory Accounting Principles ("SAP"), in the amount of \$110,313,442.00. The  
8 Insurance Commissioner has adopted regulations promulgating SAP as the accounting  
9 treatment to be used by insurance companies transacting business in Washington. See RCW  
10 48.05.073 and WAC 284.07.050. The recent history of the financial condition of WULA is as  
11 follows:

12 The 2003 Annual Statement (as of December 31, 2003) filed with the Office of the  
13 Insurance Commissioner ("OIC") stated that WULA had capital and surplus in the amount of  
14 \$117,944,585.00. The March 31, 2004 Quarterly Statement stated that WULA had capital  
15 and surplus in the amount of \$105,517,762.00. As stated above, the most recent Quarterly  
16 Statement (as of June 30, 2004) stated that WULA had capital and surplus in the amount of  
17 \$110,313,442.00.

18 RCW 48.05.340 sets forth the minimum capital and surplus for authorized insurance  
19 companies such as WULA. WULA has met the minimum capital and surplus requirements.  
20 In addition, RCW 48.05.430 through .490 require an authorized insurance company to have in  
21 surplus a supplemental amount determined by the company's risk-based capital ("RBC")  
22 formula. WULA has been placed in RBC supervision status. If WULA can increase its  
23 earnings in the second half of 2004, reduce its asset risk exposure primarily through the sale  
24 of its real estate owned ("REO") properties, and control mortgage defaults, WULA hopes to  
25 raise its RBC score to exit the RBC supervision status.

26

1           4.     *Retention of Policyholders.* Although there were significant increases in  
2 surrenders in March and April 2004, WULA faces no liquidity problems with respect to  
3 surrender demands at the present levels. Since the March and April 2004 spike in surrender  
4 levels, the surrender levels have returned to prereceivership levels. For example, WULA's  
5 July and August 2004 surrender levels are below the July and August 2003 surrender levels.  
6 The Receiver will continue to place emphasis on retaining current policyholders.

7           5.     *Reinsurance.* WULA is reinsured under a valid and enforceable Reinsurance  
8 Agreement with Old Standard Life Insurance Company ("Reinsurer"), an affiliated entity that  
9 was placed into receivership by the Idaho State Department of Insurance on March 2, 2004.  
10 Based on current information, WULA anticipates that the Reinsurer will honor its reinsurance  
11 obligations either by (a) paying in full its reinsurance obligations as required under the  
12 Reinsurance Agreement, or (b) reaching a commutation agreement with WULA. A  
13 commutation proposal is currently being considered.

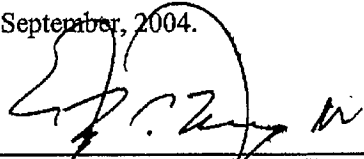
14          6.     *Operating Expenses.* Since the commencement of the receivership, efforts  
15 have been made to reduce expenses. By moving its home office to a location outside of  
16 downtown Spokane in mid-August 2004, WULA will achieve an annual savings, on an  
17 ongoing basis, of approximately \$200,000.00 per year. WULA has experienced a significant  
18 increase in salaries and employee benefits since being placed into receivership. This is the  
19 result of hiring employees from its parent entity, Metropolitan Mortgage and Securities  
20 Company, Inc. ("Metropolitan"), and other external sources to perform functions which were  
21 previously performed by Metropolitan employees. However, WULA has experienced an even  
22 greater reduction in other operating expenses, including eliminating payments to its parent for  
23 services that are now performed by WULA employees.

24          7.     *Issues with Parent and Affiliate Companies.* Metropolitan filed for Chapter 11  
25 bankruptcy protection on February 4, 2004. WULA has substantial claims against  
26

1 Metropolitan and is in the process of evaluating and quantifying such claims. WULA is also  
2 in the process of evaluating and quantifying its claims, if any, against its affiliate entities.

3 8. *Continued Prospects for Rehabilitation.* The rehabilitation of WULA remains  
4 on course. The continued prospects for a successful rehabilitation remain promising.


5 DATED this 14<sup>th</sup> day of September, 2004.

6  
7   
8 WAYNE C. METCALF, III,  
9 Chief Deputy Receiver for  
10 Western United Life Assurance Company

11 Presented by:

12 CHRISTINE O. GREGOIRE  
13 Attorney General

14 By:

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16 CHRISTINA G. BEUSCH, WSBA# 18226  
17 Assistant Attorney General  
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